

## Overview of the regional EPA negotiations

### SADC-EU Economic Partnership Agreement



The purpose of this *InBrief* series is to provide a synthesis of the main elements and issues at stake for the 6 African, Caribbean, and Pacific (ACP) groupings negotiating an Economic Partnership Agreement (EPA) with the European Union (EU). Each *InBrief* offers an overview of the economic and regional integration dynamics influencing the structure, pace, and outcome of the EPA negotiation process for each region. It also focuses on the main issues and challenges to be tackled by each region in order to make the new trade arrangement a development oriented instrument. Each regional *InBrief* is complemented by an update on the ongoing EPA negotiation process. Every 6 months until the conclusion of the EPAs, a new update will be produced. [www.ecdpm.org/inbrief14f](http://www.ecdpm.org/inbrief14f)

### Introduction

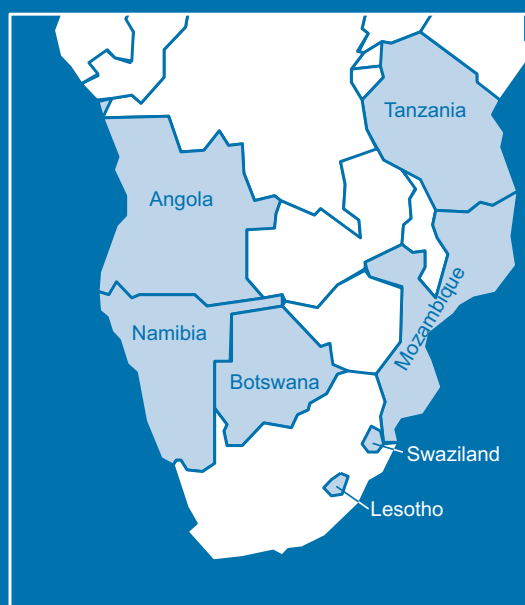
The Southern African Development Community (SADC) is composed of a diverse group of countries facing various development challenges. Among the region's fourteen countries, with a total of more than 200 million inhabitants, there are large differences in size, economic development, trade patterns and factor endowments. SADC comprises eight least developed countries, some land-locked and small and vulnerable economies, as well as one prominent country, South Africa, which accounts for over two-thirds of the region's economy. SADC is pursuing intra-regional trade integration, forming a free trade area (FTA), with the ambition of moving towards a customs union. In parallel, several SADC members are involved in negotiations with other regional organisations. Moreover, SADC is engaged in negotiation of an Economic Partnership Agreement (EPA) with the European Union, which is to replace the thirty-year-old Lomé non-reciprocal trade regime by 1 January 2008.

While South Africa's trade has surged since 1994 under the post-Apartheid regime, the SADC region has remained a marginal player in the international market. With a relatively stable 0.80% share of total world exports over the decade 1992-2002, SADC

has not yet been able to fully benefit from the global trade liberalisation trend. Nonetheless, SADC countries are highly dependent on trade, with exports generally concentrated in a few commodities (mainly

agricultural products) and services/tourism. SADC's main trading partners are the European Union, the United States and increasingly China.

### SADC-EU EPA regional configuration



### ACP SADC (excluding South Africa) Trade in Goods with the European Union, 2005

#### Trade flows

- EU-bound exports: €10,050 million (growth 2004-2005: 23.8%)
- Imports from the European Union: €4,826 million (growth 2004-2005: 18.7%)
- Trade balance: €-5,223 million

#### Share of agriculture in trade

- EU-bound exports: 17%
- Imports from the European Union: 14%

#### Participation in EU trade:

- EU-bound exports: 0.45%
- Imports from the European Union: 0.85%

#### Main trade partners (2004):

- Exports: European Union (29%), United States (26%), China (23%), Other (16%)
- Imports: European Union (26%), South Africa (20%), Other (38%)

Source: Comext (2005), EU declarations and IMF (2004)

## The SADC Regional Integration Process

SADC<sup>1</sup> was established in 1992, when the SADC Treaty replaced the Southern Africa Development Coordination Conference (SADCC). Initially SADC was seen as a vehicle for political integration. This political platform, which is still SADC's strong suit, then took on trade matters. The SADC Trade Protocol was adopted in 1996 and came into force in September 2000. It envisions the formation of an FTA, with liberalisation of 85% of all intra-regional SADC trade by 2008.

During the transition period towards the FTA, SADC countries may trade on preferential terms in an asymmetrical manner. Under these arrangements, South Africa (and indirectly its customs union partners)<sup>2</sup> is expected to open its market faster than the other SADC members. Although the trade protocol does not mention a customs union, there has been a proposal for the formation of a SADC customs union by 2010 and a common market by 2015.

The SADC Trade Protocol contains provisions not only on market access for goods, but also arrangements for rules of origin, tech-

nical barriers to trade, and Sanitary and Phytosanitary (SPS) measures. The protocol also promotes cross-border investment and future trade liberalisation in services.

All indicators suggest that the SADC countries as well as the SADC region as a whole have increased their openness. However, trade flows among SADC countries are still relatively low. During the 1990s, SADC intra-regional trade as a percentage of total trade more than doubled, reaching 20% in 1997. The overall figure for intra-regional trade stood at roughly 25% by 2003.<sup>3</sup> These figures however take South Africa into account. South Africa experienced a disproportional increase in trade after the change of political regime in 1994 and now accounts for over 70% of intra-SADC exports, enjoying a large trade surplus with the other members.

In spite of the SADC Trade Protocol's ambitious agenda, limited progress has been made in regional economic integration. The trade policy of several SADC members has not been consistent with their tariff reduction schedules. Furthermore, some of the most important product lines have been excluded from liberalisation. The volume of goods that SADC countries wish to leave out of any regional liberalisation is also worth more than the agreed 15%.

It is important to note that most SADC members belong to at least one other regional grouping. This is perfectly consistent with the principles of an FTA, where each member remains in charge of its own trade policy towards non-members. A country can thus belong to several different FTAs,

as is often the case. However, in the case of customs unions, where members adopt a common external tariff and policy, a lack of coherence leads to conflicting obligations.

A sub-group of SADC members, South Africa and the BLNS (Botswana, Lesotho, Namibia and Swaziland) countries, have formed the Southern African Customs Union (SACU). A possible SADC customs union will thus require alignment with the SACU common external tariff. To complicate matters further, several SADC members also belong to the Common Market of Eastern and Southern Africa (COMESA), which is set to become a customs union by 2008.<sup>4</sup> Also, Tanzania, in addition to its SADC membership, is also part of the East African Community (EAC), which became a customs union in 2005, but the country is not a COMESA member, like its two EAC partners, Kenya and Uganda. This has led to unavoidable conflicting economic integration commitments and objectives (see figure 1).

Besides the lack of harmonised inter- and intra-regional trade policies, there has been little progress in formulating a coherent trade policy among SADC members, despite the SADC Trade Protocol.

## International Trade Negotiations

All SADC countries are members of the World Trade Organization (WTO) and participate in the Doha Development Round. They are also signatories to the Cotonou Partnership Agreement and are thus currently negotiating an EPA with the

### SADC Trade Protocol: Market access for four categories of products

Product category	Type	Liberalisation schedule
Category A	Mostly capital goods and equipment	Liberalised in the first year
Category B	Goods that constitute important sources of customs revenue	To be liberalised by 2008
Category C	Sensitive products (e.g. sugar)	Limited to a maximum of 15% of each member's total merchandise trade; to be liberalised between 2005 and 2012
Category E	Products excluded from preferential treatment under general and security exceptions	No liberalisation

European Union. The exception is South Africa which, as a “qualified” member only under the ACP-EU partnership agreement, does not benefit from the EU non-reciprocal trade preferences. Instead, it has concluded an FTA with the European Union. This Trade, Development and Cooperation Agreement (TDCA), has been in force, provisionally and partially since January 2000 and fully since May 2004. Besides, SADC members take part in bilateral agreements with one another and with other countries. Several SADC countries benefit from preferential market access to the United States under the African Growth and Opportunity Act (AGOA). SACU is also negotiating a possible free trade agreement with the United States, and one with MERCOSUR, and a future trade agreement with India is also possible.

## EPA Negotiations

In previous ACP-EU cooperation agreements, all ACP countries enjoyed non-reciprocal tariff preferences for their exports to the EU market. Under the Cotonou Agreement, this will change after 2008, when reciprocal free trade arrangements negotiated at the regional level between the European Commission (EC) and the six ACP regions will replace the previous preferential trade regime. These new agreements must be compatible with the rules of the WTO, development-oriented and build upon ACP regional integration initiatives. The new trade regime must also incorporate and improve upon the Lomé/Cotonou instruments regarding access to the EU market for the ACP countries.

## Regional Configuration

As mentioned above, South Africa concluded a free trade agreement with the EU in 2000 (the TDCA) and will therefore not be part of the EPA negotiations. Also, as noted, SADC membership often overlaps with other regional arrangements, which have different (and sometimes conflicting) integration and trade programmes and whose members are also expected to negotiate EPAs with the European Union. Currently, Angola, Botswana, Lesotho, Namibia, Mozambique, Swaziland and Tanzania have chosen to negotiate an EPA under the SADC banner, as the SADC-EPA group. South Africa will participate as an observer. Other SADC members will negotiate an EPA under the banner of other regional arrangements. Interestingly, the SADC-EPA group has

decided to keep the door open for any other SADC member that may wish to join the negotiations at a later stage.

## The SADC-EU EPA Negotiating Principles

The Cotonou Agreement and the ACP guidelines for EPA negotiations state the general objectives and principles the SADC members will adhere to in the EPA negotiations. These main principles are threefold. First, the fundamental aim of the SADC-EU EPA lies in its contribution to development, given the significance of the poverty eradication objective and the present level of development in the SADC region. Trade liberalisation is one of the intended means to achieve this goal, but given the structural frailties of the SADC-EPA economies, it is clear that trade liberalisation in itself will not lead automatically to growth and sustainable development. Therefore, the EPA should tackle trade and development weaknesses in a more significant way than the Lomé conventions. By adopting a more holistic approach, the EPA can help SADC economies surmount their various supply-side constraints and build a more diverse and competitive production basis.

A second negotiating principle is that the EPA should complement rather than substitute for the SADC regional integration process, as well as other regional integration programmes. Also, the EPAs are to be designed so as to facilitate a full implementation of the SADC Trade Protocol, and eventually the step to a customs union. Before discussing the EPA framework with the European Union, SADC regional integration programmes will need to be further established in several areas, for example, appropriate institutional and legal bodies are required.

A third negotiation principle is that of differentiation and asymmetry among individual SADC countries. Special and differential treatment, not limited to longer transitional periods and technical assistance and which may go beyond WTO rulings, is to be granted according to the differences in size, economic vulnerability and levels of development among the various SADC countries. Special attention is required for the least developed countries in the region.<sup>5</sup> Moreover, the EPA must incorporate WTO compatibility and the move from a preferential to a reciprocal trade regime, as well as improved access to the EU market.

## SADC Negotiating Structure

Negotiation of the SADC-EU EPA is taking place at three levels: the ministerial level, the level of the senior officials and Brussels-based ambassadors, and the level of the SADC Trade Negotiating Forum (TNF), in which officials from trade and industry departments, non-state actors and the private sector are represented. At the ministerial level, SADC has designated Botswana's Minister of Trade and Industry, N. Moroka, to lead the negotiations. Further, responsibility for coordinating the negotiations among the SADC countries is allocated in seven areas/clusters among the SADC trade ministers. At the senior official level, a chief negotiator will lead the negotiations, and Brussels-based ambassadors will negotiate under the coordination of the Botswana Ambassador in Brussels. At the technical level, the EPA Unit of the SADC Secretariat, led by the chief negotiator, will coordinate and support the TNF.

## Key Issues and Challenges

The SADC-EU EPA negotiations are accompanied by a multitude of challenges in a number of key areas.

### Geographical configuration

Issues related to geographical configuration represent the foremost challenges facing the region in its EPA negotiation process. In their present condition, the SADC-EPA countries are severely hampered in their collective negotiations of an EPA. They have limited capacity, and face major complexities regarding the requisite policy coherence and coordination, as demonstrated by the problems of overlapping membership. The various regional arrangements have differing integration and trade programmes, resulting in conflicting obligations.

The TDCA-SACU situation is a telling example. Presently, the grouping with most capacity and institutional maturity to negotiate an EPA is SACU, which is also the only sub-region that has established a customs union. Because of their common external tariff, the BLNS countries are already de facto part of the TDCA between the European Union and South Africa. Thus, SACU could either negotiate a SACU-EU EPA in combination with the TDCA, or it could negotiate an EPA with the rest of SADC. The challenge lies in how this will take form. Will the TDCA be reopened and reviewed to accommodate the BLNS countries? But with TDCA access to the EU market the BLNS



countries will not have as good a market access as under the Cotonou Agreement. This is contradictory to the Cotonou Agreement, which states that the EPAs must preserve the *acquis* of Lomé. Thus, market access under BLNS-EU trade arrangements, whatever form they may take, must be at least as good as that under Lomé. Also, if the BLNS countries are incorporated into the TDCA, this brings forth the question of how to fit in the other three SADC-EPA members.

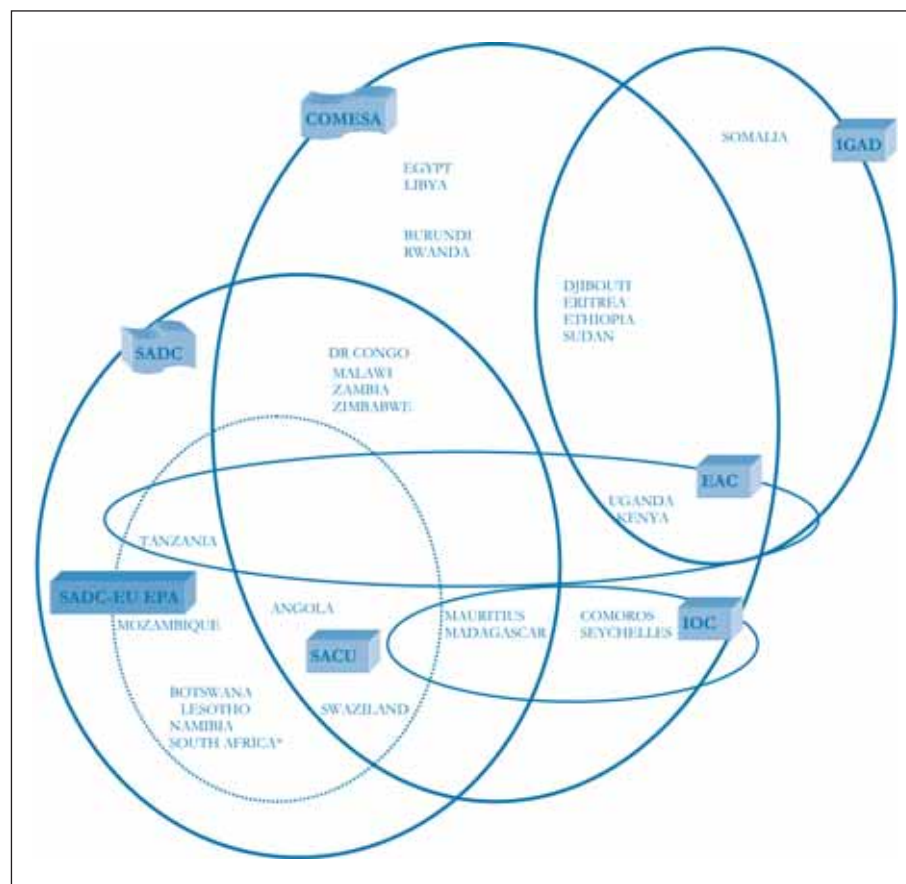
The second configuration is Tanzania, which is part of the SADC-EPA group and a member of the EAC customs union, along with Uganda and Kenya. While Tanzania is set to negotiate an EPA with the EU under the SADC banner, its partners, Uganda and Kenya, will negotiate an EPA under the ESA flag. Because the three countries form a customs union, the current configuration means that there is no room for differences between the SADC and ESA EPAs.

Coordination and harmonisation of the SADC-EU EPA with other EPA negotiation processes is therefore required for the successful conclusion of other negotiations as well. Alliances among regional partners for the negotiations will clearly be needed. The SADC-EPA group should effectively pursue trade policy convergence among its members. An FTA should, in conformity with the SADC Trade Protocol, be established by 2008, and the move to a customs union should follow shortly after. Furthermore, harmonisation of the common external tariffs of the regional groupings is required (i.e. with SADC/SACU, COMESA/EAC, IOC) to iron out the incoherence resulting from overlapping memberships. (was incorrect about EBA)

### Capacity for trade negotiations and resource mobilisation

A second area of challenges is capacity building for trade negotiations and the mobilisation of resources. The SADC-EPA member states, except for South Africa, have limited experience in multilateral trade negotiations. Yet all SADC-EPA members are in the process of negotiations at the bilateral or regional level regarding free trade agreements or a customs union. Many of these regional trade arrangements have not yet been fully established and require the already overstretched scarce analytical and negotiating capacity available in the countries. In addition to the capacity building requirement, both state and non-state delegates from each country have to participate in negotiations at various levels and in preparatory trainings. This means that

Figure 1. SADC-EU EPA configuration and overlapping regional and sub-regional economic integration groupings



\*South Africa is an observer in the SADC-EU EPA negotiation process.

\*\* DRC has joined the CEMAC-EU EPA configuration at the end of 2005.

significant resources will be needed to effectively coordinate SADC-EPA member states' approach to the negotiations at the different levels.

### Cost of reciprocity

Another central issue is the cost of reciprocity. Implementation of an EPA will grant the EU improved access to the SADC market, the possible negative effects of which are twofold. First, reciprocity implies increased competition from EU companies, which is likely to harm industry within the SADC countries. In particular, small and medium-sized SADC firms might be at a competitive disadvantage, because they lack advanced technologies and the option of economies of scale. Second, and probably the most serious drawback, tariff liberalisation in the context of the EPA will result in substantial fiscal revenue losses. In the worst cases more than 30% of total import revenues will

be lost.<sup>6</sup> Moreover, SADC government budgets will be put under pressure by the infrastructure investments required to prepare the regional market for EU competition.

### Key sectors: Agriculture, services

Agriculture's economic and social importance in the SADC region goes far beyond trade concerns. Most SADC countries are still heavily dependent on a limited number of agricultural commodities for their export earnings and socio-economic stability. Livestock and sugar are main agricultural exports for the BLNS countries. Sugar, cotton and coffee are important to Tanzania and Mozambique.<sup>7</sup> As a result, EU policy development, notably within the reform of Europe's Common Agricultural Policy (CAP), will have important consequences for the EPA negotiations. Any liberalisation request from the European Union, as well as any proposal or process that could further affect

the SADC-EPA trade preferences in the agricultural sector (e.g. reform of the ACP Sugar Protocol) will be received with extreme caution by SADC trade negotiators.

Services is another key sector in the SADC region, particularly travel and tourism, but also education and health-related services, transport and financial services (especially through South African investment), which are gaining in importance. Liberalisation of

trade in services under an EPA, coupled with the negotiations at the WTO level in the context of the General Agreement on Trade in Services, should increase international competition, posing the region serious economic, social and environmental challenges. However, it could also lead to gains in terms of greater access to the EU market (notably for exports under GATS Mode 4 – Temporary Movement of Natural Persons) and attraction of foreign direct investment.

SADC negotiators can be expected to ensure that full use is made of the flexibility allowed in GATS provisions in terms of special and differential treatment, in line with the outcome of the Doha Round, and that necessary adjustment and support measures for fostering competitiveness and supply-side capacity are efficiently delivered in the region.

### List of acronyms

ACP	African, Caribbean and Pacific	ESA	Eastern and Southern Africa	SADCC	Southern Africa Development
AGOA	African growth and	EU	European Union		Coordination Conference
	Opportunity Act	FTA	Free Trade Agreement	SAIIA	South African Institute of
BLNS	Botswana, Lesotho, Namibia	GATS	General Agreement on Trade in		International Affairs
	and Swaziland		Services	SPS	Sanitary and Phytosanitary
CAP	Common Agricultural Policy	GDP	Gross Domestic Product		measures
COMESA	Common Market for Eastern	IGAD	Inter-Governmental Authority	TDCA	Trade, Development and
	and Southern Africa		on Development		Cooperation Agreement
DRC	Democratic Republic of Congo	IOC	Indian Ocean Commission	TNF	Trade Negotiating Forum
EAC	East African Community	IMF	International Monetary Fund	US	United States
EC	European Commission	MERCOSUR	Southern Common Market	WTO	World Trade Organization
EPA	Economic Partnership	SACU	Southern African Customs Union		
	Agreement	SADC	Southern African Development		
			Community		

## Notes

- <sup>1</sup> SADC members are Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
- <sup>2</sup> Botswana, Lesotho, Namibia, Swaziland
- <sup>3</sup> See SADC Press Briefing, 9 March 2004: [http://www.sadc.int/news/news\\_details.php?news\\_id=40](http://www.sadc.int/news/news_details.php?news_id=40)
- <sup>4</sup> Initially, COMESA had planned to establish a customs union by 2004.
- <sup>5</sup> Angola, Lesotho, Mozambique.
- <sup>6</sup> Szepesi and Bilal. 2003. InBrief, No. 2B (September).
- <sup>7</sup> Angola could be seen as an exception, with over 90% of its export earnings derived from crude oil exports. Even so, more than 80% of its population is employed in agriculture.

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## Additional Sources

- Bilaterals.org [www.bilaterals.org](http://www.bilaterals.org)
- Portal on ACP-EU trade matters [www.acp-eu-trade.org](http://www.acp-eu-trade.org)
- European Commission's website, DG Trade, EPA Regional negotiations : [http://ec.europa.eu/trade/issues/bilateral/regions/acp/regneg\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/regions/acp/regneg_en.htm)  
[http://trade.ec.europa.eu/doclib/cfm/doclib\\_section.cfm?sec=148&lev=2&order=date](http://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=148&lev=2&order=date)
- SAIIA [www.saiia.org.za](http://www.saiia.org.za)
- SADC [www.sadc.int/](http://www.sadc.int/)

## Overview of regional EPA negotiations InBrief series for 2006-2008.

The purpose of this InBrief series is to allow a wide range of ACP and EU stakeholders to have a clear overview on the structure, phasing, key challenges and main developments in the negotiations of economic partnership agreement (EPA) by each of the six ACP negotiating regions: the Caribbean, West Africa, Central Africa, East and Southern Africa, Southern Africa and the Pacific. For each ACP EPA regional grouping, reference is made to other international trade negotiations and their regional economic integration processes. In addition, each InBrief will be complemented by a regular Update that summarises the current state of negotiations.

The Overview of Regional EPA Negotiations InBrief series is part of the effort by ECDPM to provide regular information and analysis related to the EPA negotiations. Other contributions include the *Negotiating EPA InBrief series* which provides non-technical overviews and syntheses of specific issues that are to be addressed in the EPA negotiations ([www.ecdpm.org/epainbriefs](http://www.ecdpm.org/epainbriefs)), and the *Comparing EU FTA InBrief series* which provides a detailed overview of the trade and trade-

related provisions of free trade agreements (FTAs) recently concluded by the EU with developing countries ([www.ecdpm.org/ftainbriefs](http://www.ecdpm.org/ftainbriefs)).

The ECDPM acknowledges the generous support of the Swiss Agency for Development Cooperation, the Ministry of Foreign Affairs in Sweden and the Netherlands for the production of this series.

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This Overview of Regional EPA Negotiations InBrief series is an initiative by the European Centre for Development Policy Management with contributions of Sanoussi Bilal, Camille Donnat, Nicolas Gerard, Francesco Rampa and Kathleen Van Hove (ECDPM) under the editorial supervision of Sanoussi Bilal ([sb@ecdpm.org](mailto:sb@ecdpm.org)) and Kathleen Van Hove ([kvh@ecdpm.org](mailto:kvh@ecdpm.org)).

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The ECDPM acknowledges the support it receives for the InBrief from the Ministries of Foreign Affairs in Finland, Luxembourg, the Netherlands and Sweden, the Directorate-General for Development Cooperation in Belgium, Irish Aid, the Swiss Agency for Development and Cooperation, the Instituto Português de Apoio ao Desenvolvimento in Portugal, and the Department for International Development in the United Kingdom.

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ISSN 1571-7542